Energy Division White Paper
R.09-11-014: Workshop on Post-2012 Energy Efficiency Portfolio Cycle Schedule and Bridge Funding Issues
February 16, 2011

White Paper Summary

In this paper, Energy Division staff further develop and analyze some of the issues raised in the November 17 and December 23, 2010 Assigned Commissioner's Rulings (ACR) regarding the extension of the 2010-2012 portfolio, and present questions to discuss in the February 16th workshop. The December 23, 2010 ACR determined that it was necessary to extend the 2010-2012 funding cycle by at least one year in order to update the adopted goals and to make changes to the energy efficiency policy framework before the IOUs plan the next portfolio. This paper will initiate the discussion of planning for the next portfolio cycle (including timing) and the implications and mechanics of the "bridge year" by presenting the following issues:

1. **Options and implications of extending the IOUs' 2010-2012 energy efficiency portfolios with one or two bridge years.** In response to parties' request, Energy Division has prepared two "straw man" timelines of activities for each option, included as Attachment A. The paper presents the pros and cons of each option, and introduces the discussion for an alternative approach that would simplify the portfolio development process.
2. **The mechanics of the portfolio extension.** This white paper describes the procedural history of the previous bridge funding period, summarizes parties' specific recommendations, and poses follow up questions on the following issues related to the portfolio extension:
    - The public review process for mid-term portfolio adjustments (in Q1 of 2012 for 2013 adjustments)
    - Whether to update of cost effectiveness and ex-ante values for bridge years
    - Appropriate budget level for any bridge year(s)
    - Extension of IOU contracts with program deliverers and local government partnerships

3. **The procedural schedule to approve bridge funding**. This paper will provide a straw proposal for the bridge funding request and approval process.

However, this white paper and the workshop on February 16 will be limited in scope to discuss the portfolio extension and bridge funding issues *for this cycle only*, in order to address the time-sensitive nature of the bridge funding process. Parties presented additional recommendations in comments to the November 17, 2010 ACR, which may require more time to discuss. For this reason, the following issues will be addressed at a later date and are out of scope for the February 16 workshop:

- Permanent extension of the portfolio cycle or rolling portfolio cycles[1]
- Program administration for future portfolio cycles
- Specific updates to cost-effectiveness calculations

Parties will be given the opportunity to comment on the questions posed in this white paper, as well as any additional relevant concerns in post-workshop comments.

Options and Implications of Portfolio Extension

In parties' comments on the November 17 ACR, there was widespread agreement that the Commission should develop and vet with parties a schedule or "roadmap" for coordinating all necessary pre-cycle planning inputs[2] and should adhere to that schedule.[3] In response, Energy Division staff first developed two specific timelines included in Attachment A – Option A (a one-year extension) and Option B (a two-year extension).

However, Energy Division staff observes a striking level of complexity illustrated by the timelines in Attachment A. These timelines represent Energy Division's interpretation of the Commission's current expectations for how the goals-setting process (and associated inputs and dependencies) is supposed to work. Yet, the "traditional approach" as represented by these timelines assumes a level of detailed analytics (e.g., potential study) and serial dependencies (e.g., goals study depending on potential study depending on DEER updates) which may be unnecessary for the Commission's purposes in a higher-level goal-setting process. The downside of these complex analytics and lengthy serial processes is that, due to limited staff and party resources, it causes delays in periodic updates of the IOUs' portfolios to reflect changes in the market place. The Energy Division believes it is necessary and timely to also consider a "third way" that would simplify the portfolio planning process (see discussion below).

Goals Update

Energy Division's current plans for the scope of the Goals Update Study include the components listed below. However, the length of the extension may affect the extent to which all of these components can be effectively evaluated. These components include:

- Breakouts of total market gross goals and IOU specific energy savings targets by sector
- Scenario analyses that will consider economic and market effects as well as new state and federal legislation
- Assessment of potential from new initiatives addressed in the Strategic Plan, such as whole house retrofits, Zero Net Energy Action Plan, Continuous Energy Improvement, On-Bill Financing, and the Behavior Pilot Program.

[1] D.07-10-032 considered the option of "rolling funding cycles" and directed the utilities to explore this approach with parties and staff, and to include a "rolling budget" proposal for their 2009-2011 portfolio plans (see Section 6.7.1, p. 96).

[2] SCE reply comments at pg. 4, PG&E comments at pg. 2, DRA comments at pg. 2, NRDC comments at pg 7-8

[3] Efficiency Council comments, pg. 3 and pgs. 7-8

- Methods to compare bottom up potential with macro-consumption metrics

Reflection of EM&V Findings

Since the November 17 ACR when the original timeline for one-year extension[4] was established, the Energy Division has further refined its understanding of the various processes to prepare for the next portfolio cycle, according to current Commission guidance. A significant development since the November 17 ACR was the release of the 2010-2012 Evaluation, Measurement and Evaluation Plan (EM&V Plan), issued on December 20, 2010.[5] The EM&V Plan establishes the structure for various studies intended to inform the IOUs on what adjustments to make to current EE programs and how to plan for the next portfolio cycle. It also provided greater clarification of the schedules for, and interdependencies of, various studies and evaluations intended to inform the IOU's portfolio plans.

It is important to note that, regardless of whether bridge funding is extended for one or two years, there is limited ability for 2010-2012 impact evaluation results to be used for planning purposes. Full-cycle impact evaluations are due to be completed in the third quarter of 2013,[6] which is too late to be incorporated into the IOUs' portfolios (in either case).[7] Market assessment and process evaluations interim results might be available under a 1-year extension, but more thorough and valuable information would only be available under the 2-year extension scenario. Overall, more opportunities exist to incorporate lessons learned and new information from evaluation of the 2010-2012 program cycle, if a 2-year bridge funding scenario is adopted.

Timing Considerations

The implication of a five-year portfolio (hypothetically 2010-2014) is that this decade would see only two portfolio cycles. Is this acceptable, given that energy efficiency is a cornerstone strategy to achieving AB 32 climate goals? If not, then it may be unrealistic to expect that current cycle evaluation results can be applied (wholly or in part) to the subsequent cycle's planning process. (Note: The statements above are based on the current 2010-2012 Evaluation Plan v.1; and the outputs of various studies are subject to change based on the scope and scale of the studies and the need for early feedback to inform this process or others.) Other factors that could affect the planning process and parameters are the expected legislative consideration in 2011 of PGC re-authorization, and CEC's development of a statewide program to retrofit all existing buildings (per AB 758, 2009).

[4] Aka "Option B" in the November 17 white paper

[5] See EM&V Plan http://www.energydataweb.com/cpucFiles/topics/59/2010-2012%20Energy%20Efficiency%20EM&V%20Plan%2012-20-10.pdf

[6] See Energy Efficiency EM&V plan, pg. 5-16 at http://www.energydataweb.com/cpucFiles/topics/59/2010-2012%20Energy%20Efficiency%20EM&V%20Plan%2012-20-10.pdf

[7] Interim impact evaluation results might be available for some of the most significant measures and parameters by mid-2012. Thus, either Option A or Option could use interim results.

A. Option A: 1-year Bridge Period with a 2014 Portfolio Start[8]

Based on parties' recommendations and the current status of activities, the Energy Division has prepared a more detailed timeline to evaluate the critical path of tasks that must be completed in order to reach a prospective 2014 portfolio start. Attachment A presents a draft timeline of critical tasks and their interdependencies, which could be completed under Option A.

Under Option A, the Commission will reach a bridge funding decision in Q4 of 2011 and provide the IOUs with a year to make mid-cycle adjustments. Option A allows 10 months for a goals study update to plan for the next portfolio cycle. Option A also assumes that the goals analysis expected by Q4 of 2011 will incorporate an update of the ex-ante parameters for the 2006-08 impact evaluations and cost-effectiveness inputs expected by Q4 as determined in the December 23, 2010 ACR.

However, the time available for updates to a broader set of ex-ante parameters in DEER and to the cost-effectiveness methodology remains limited. As illustrated in Attachment A, the establishment of updated IOU goals depends upon the outputs of these two preceding tasks and must be adopted by Commission decision before the IOUs begin to plan their portfolios. Option A provides 8 months for the cost effectiveness update, 8 months to complete the DEER study, and 12 months to complete the goals study, which will all occur concurrently. Following the Goals study, Option A provides 6 months for the Commission to adopt the goals, 9 months for the IOUs to plan the program portfolios, and 6 months for the Commission to approve the portfolios.

The Energy Division has identified both pros and cons with Option A:

Pros for Option A

- **Portfolio programs will be adjusted more quickly to meet state goals.** Under Option A, IOUs will be able to initiate new programs and cancel underperforming and/or non-cost-effective programs in 2014 instead of 2015. These changes may be necessary for IOUs to achieve aggressive state goals for energy efficiency, and related climate goals.
- **Energy savings assumptions for the portfolios will be updated sooner, using available information from the 2006-2008 EM&V results**. Depending on Commission decision about whether to apply 06-08 updates to ex-ante numbers for bridge funding, portfolio adjustments, Option A reduces the persistence of old 2004-2005 Ex-Ante DEER assumptions by one year. Thus, new portfolios designed using estimates that consider 2006-2008 evaluation results would be implemented in 2014 instead of 2015.
- **A one year timeframe allows for earlier application of implementation feedback from 2010-2012 EM&V evaluations.** Energy Division and IOU evaluations are being designed to provide strategic early feedback to the portfolio

[8] Option A (a one-year extension) in this staff white paper does not correspond with Option A in the November 17 staff white paper (which assumed no extension).

planning process and continuous communication on EM&V will allow for new information to be accessible over the course of the planning, review and approval process. Information about significant measures, program effectiveness, portfolio effectiveness, and market analyses is scheduled to be ready at the beginning of 2012, in time for the start of the portfolio planning process. As new information becomes available during the planning process stakeholders will be privy to all of this information through the ongoing outreach of Energy Division's Energy Efficiency Evaluation team via quarterly meetings.

Cons for Option A

- **There is significant risk that the schedule may slip.** The updated and expanded timeline developed to incorporate the EM&V Plan, the anticipated schedule to complete the components of analysis has been determined to be longer than was expected in the November 17 staff proposal. In order to meet the 1 year extension schedule, the timeframe for each critical has been shortened. Of particular note, the timeframe estimates that the proceeding to adopt goals and approve the IOU portfolios to be only 6 months, presenting two concerns. It is unclear whether 6 months will be sufficient time for parties to review the plans and prepare testimony or to conduct meaningful research and analysis. Furthermore, Commission proceedings cannot be held to a timeframe set by Energy Division or parties.
- **The DEER update may not be complete in the 9 month timeframe.** Given the number of tasks involved in preparing the goals update, there are planned components of the DEER update, potential study and goals study that may not be able to be incorporated in one year. With one bridge year, it may anticipated that there will be an equivalent level of adjustments made to the IOU portfolios as were made for the 2010-2012 portfolio cycle.
- **Several key studies are less likely to be fully developed to inform the Goals update** (See EM&V Plan, for reference). Specifically:
    - **The ZNE Potential Study, and the Plug Load Potential Study** may need to be rolled into the overall Potential Study, which is expected to be complete in 8 months. There may not be sufficient time to adequately assess the potential of these two key components of the Strategic Plan.
    - While **the Macro-consumption Metrics pilot study** is expected to be complete before the Portfolio Guidance Proceeding, the full scale Macro-consumption Study will not be complete until 6 months after the IOUs begin planning their portfolios.
    - **Program Measure and Impact Evaluations** will be completed at approximately the same time as the IOUs would submit their 2014 portfolio applications, so IOU's ability to incorporate this new information into the portfolio planning process will be limited.

B. Option B: 2-year Bridge Period with a 2015 Portfolio Start[9]

Option B would extend the bridge funding period through 2014, as illustrated in Appendix B. This option allows an additional month (or more) to update the cost effectiveness methodology, an additional 2 months for DEER updates, and an additional 3 months for the Potential Study, which is anticipated to be complete by the end of 2011. It extends the Goals Study by 4 months, as well as providing an additional 3 months for the Commission to review and adopt the goals, which allows a total 9 months for the proceeding. It provides and additional 3 months (12 months total) for the IOUs to plan their portfolios, 3 months (9 months total) for review and adoption of the portfolios and 1 month (4 months total) for program implementation. The IOUs commented that 12 months was necessary to plan the portfolios, while the EM&V plan team requests additional time. Energy Division staff believes that Option B will meet the timeframe ideally necessary to accomplish these tasks.

Pros for Option B

- **Provides sufficient time to integrate results of EM&V into the planning process.** Under Option B, the DEER update process would be able to adequately vet all measures from the '06-08 EM&V results, as well as key updates from the '10-12 evaluations, whereas, the consultants are concerned that these updates will not be complete on the one year schedule. Option B allows time to complete key components of the '10-12 evaluations to incorporate into the IOUs' portfolio planning process. Full cycle impact evaluations are due to be completed in the third quarter of 2013[10] as the IOUs near completion on their 2014 (or 2015) portfolio plans. Interim results may be available for some of the most significant measures and parameters in mid-2012 to inform mid-course corrections; more information would be available for the beginning of the program planning process if a 2-year bridge funding scenario is adopted.

- **There likely could be major guidance recommendations to be considered that may have transformational impacts on the energy efficiency framework.** While the white paper issued in the November 17 ACR identified a number of potential changes to the policy framework, such as macro-consumption metrics and integration of strategic plan into the goals, there are other elements that may be considered, such as a rolling portfolio structure that could require more time for the Portfolio Guidance Proceeding and the Portfolio Application Proceeding.

- **Provides IOUs with 12 months, as requested, to plan the EE portfolios.** In their comments on the November 17 ACR, the IOUs stated that the portfolio planning process requires at least 12 months (rather than 9 months).

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[9] Option B (a two-year extension) in this staff white paper does not correspond with Option A in the November 17 staff white paper (a one-year extension).

[10] See Energy Efficiency EM&V plan, pg. 5-16 at http://www.energydataweb.com/cpucFiles/topics/59/2010-2012%20Energy%20Efficiency%20EM&V%20Plan%2012-20-10.pdf

Cons to Option B:

- **Portfolio updates will be delayed.** As discussed earlier, the 2010-2012 portfolio cycle continues to be based on outdated ex-ante values that may prolong programs that may be less cost-effective or may be under-achieving the energy efficiency goals. The introduction of new or revised strategies that are more closely aligned with the Strategic Plan and the Total Market Gross goals paradigm addressing those priorities would also be subject to delay. The urgency of climate change necessitates an urgency to energy efficiency portfolio planning, so parties and the IOUs should expect that regardless the length of the bridge funding period, we cannot slow down the pace of achieving energy efficiency.

- **Bridge funding years are not ideal to achieving EE Goals.** In the 2009 Bridge Funding applications (A.08-07-021, A.08-07-022, A.08-07-023, A.08-07-031) the IOUs filed a joint statement that a bridge period "it is significantly less optimal than achieving final resolution of the Applications before the end of 2008 because it jeopardizes the Utilities' ability to achieve the Commission's aggressive 2009 energy efficiency goals." This argument would apply to the current cycle as well.

- **Parties' staff has limited resources to review complex bridge funding review.** A two year bridge period may require a more substantial mid-cycle review process, and could put greater drain on parties' limited staff resources for planning, program design and mid portfolio adjustment activities that all need to occur in parallel.

- **Expectation of new funds needed for local government programs.** Local government and pilot activities funded from federal stimulus funds (through CEC and directly through local government programs funded by Energy Efficiency Community Block Grants) will be ending in 2012, likely putting added pressure on ratepayer funds to continue or expand successful programs not currently in utility portfolios. It will be necessary to initiate the next portfolio as soon as possible to fill these gaps.

- **External legislative processes may impact IOU program planning process.** Planning and analysis recommendations could be over-taken by the decisions and direction being taken in external arenas such as the legislature, CEC and/or CARB. The IOU portfolio planning process should move forward in a timely manner in order for the IOUs to meet State mandated GHG targets.

C. Alternative Approach to Portfolio Extension

Given the current path for the EM&V Plan and the Goals Study, a bridge funding period will be necessary in order to update the goals, as determined in December 23 ACR. However, portfolio extension is at odds with a simultaneous need to update the IOU's EE portfolios within a reasonable timeframe to keep on track toward the state's GHG targets.

Energy Division requests parties' input into conceptualizing an alternative to the current "traditional" approach (represented by the one-year and two-year portfolio extension timelines). The goal of any alternative should be to simplify the portfolio planning process and facilitate continuous portfolio improvements in an efficient and effective manner.

Energy Division offers the following preliminary guiding principles to indentify a possible alternative to the current, traditional approach to goal-setting and portfolio planning. Modifications and/or additions / subtractions to this list of guiding principles will be a topic for discussion at the February 16 workshop.

Guiding Principles for an "Alternative Path"

- Higher-level data and analysis could be used to inform portfolio guidance; whereas more granular data and analysis should only be used to inform program design and implementation (e.g., DEER updates may be overly detailed to justify inclusion in the goals study, but they should inform program design);
- Minimize the number of Commission decisions necessary to authorize portfolio extension and next-cycle successors;
- Place greater emphasis on goals, budgets and cost-effectiveness in Commission decisions, with program-level details subject to dialogue and development in working forums among stakeholders;
- Allow for continuous renewal of portfolio composition, even if only portions of the portfolio are renewed at one time;
- Allow for continuous incorporation of new information from impact and process evaluations, market assessments, and other sources, as information becomes available; and
- Commit only to processes for which there are sufficient staff and party resources to execute.

The Energy Division requests parties' comments in response to the following questions related to the portfolio schedule:

1. **Are the pros and cons associated with Option A accurate and complete? If not, why not?**
2. **Are the pros and cons associated with Option B accurate and complete? If not, why not?**
3. **Is the preliminary list of guiding principles for an Alternative Path reasonable? If not, what should be modified, added or subtracted?**
4. **What specific alternative(s) should the Commission consider that simplify the portfolio planning process and facilitate continuous portfolio improvements in an efficient and effective manner?**

Mechanics of the Portfolio Extension

The December 23 ACR determined that "the 2010-2012 portfolio cycle should be extended through 2013, but that a number of issues raised by the parties need to be further evaluated."[11] It was ruled that the Energy Division shall solicit input from parties in order to determine the appropriate length of the bridge funding period and how it should be structured.

2009 Bridge Funding Year

When considering the post-2012 extension, it is useful to review the 2009 bridge funding process, adopted in D.08-10-027, and discuss what improvements, if any, need to be made. The investor owned utilities[12] (IOUs) filed applications in (A.08-07-021 et. al.) for the 2009-2011 portfolios [on July 21, 2008], in which they made proposals for bridge funding in the event that the portfolios were not adopted by the end of 2008. The ALJ directed the Utilities to submit a supplemental request by August 18, 2008, that included the following information:

- "A statement of interest to seek bridge funding.
- Any exceptions to the energy efficiency policy manual or needed modifications to D.07-10-032 [the decision directing the utilities to prepare a single, comprehensive statewide long-term energy efficiency plan] or any other decision that would be required to effectuate a bridge funding decision.
- Information on monthly spending levels for 2006-2008 energy efficiency programs as requested by Energy Division in an August 7, 2008 data request.
- A proposal to continue identified current programs and only those programs into 2009 at current monthly spending levels and with current rates, with current monthly spending level clearly defined.
- A statement recognizing that program funds spent in 2009 would count for 2009 goals.
- Any proposals on use of pre-2009 unspent or unallocated funds to be used in 2009.
- A mechanism to ensure that approved programs continue on for three months at approved spending levels after a final 2009 – 2011 decision is reached.
- Any other information needed to implement the decision."[13]

On August 18, 2008, the Utilities filed a Bridge Funding Request. In their request, the utilities proposed to:

- "Fund all successful [14] 2006-2008 energy efficiency program operations (as listed in Attachment A of the Bridge Funding Request) until the Commission acts upon their applications.
- Undertake 2009-2011 program planning activities during the bridge period.

[11] December 23, 2010 Assigned Commissioner's Ruling, http://docs.cpuc.ca.gov/efile/RULINGS/128798.pdf

[12] Pacific Gas and Electric (PG&E), Southern California Edison (SCE), San Diego Gas and Electric (Sempra), and Southern California Gas (SCG)

[13] D.08-10-027, pgs. 3-4, http://docs.cpuc.ca.gov/PUBLISHED/FINAL_DECISION/92371.htm

[14] In their 2008 bridge funding request, the IOUs provided a list of "successful" programs that they would maintain through 2009. The Commission adopted DRA/TURN's position that these programs should be considered "transitional" rather than "successful" since no criteria was established to identify these programs as successful.

- Conduct evaluation, measurement and verification (EM&V) related to 2009-2011 planning and activities.
- Record program planning activities and EM&V expenditures incurred from January 1, 2009 to the effective date of a final decision on the Utilities' applications in the currently authorized energy efficiency balancing accounts.
- Allow the annual revenue requirement at the levels shown for each Utility in Attachment C of the Bridge Funding Request to be included in rates effective January 1, 2009, through existing authorized mechanisms for energy efficiency.
- Count the energy and demand savings achieved through the bridge period toward the 2009 energy efficiency goals adopted by the Commission."[15]

After an expedited period for parties' comments and replies, the ALJ approved the bridge funding request on October 16, 2008.

To determine how to proceed with the post-2012 portfolio extension and bridge funding, it is useful to consider the 2009 bridge year experience, parties' specific recommendations raised in comments to the November 17, 2010 ACR, and post-workshop comments that will be filed after the February 16, 2011 workshop to identify any specific changes that may be necessary in order to improve upon the administration of a portfolio extension.

Parties' Positions on the Mechanics of the Portfolio Extenstion

In general, parties' views on the mechanics of portfolio extension addressed five categories of issues:

A. Public review process for mid-term portfolio adjustments

Several parties' support for bridge funding depends on the establishment a mid-cycle review process.

- **Natural Resources Defense Council (NRDC)** recommends that the CPUC require the IOUs to hold an annual workshop to discuss the progress of the portfolio at a high level to give the CPUC and stakeholders insight into program achievements-to-date, and that the Commission set up a more comprehensive review and advisory body which would help monitor activities (e.g., progress towards market transformation and portfolio implementation) and advance the goals of the Commission (e.g., strategic planning goals).[16]
- **NRDC** recommends expanding the fund shifting rules to create more clear process for Peer Review Groups (PRG) review and to facilitate for third party programs. They also suggest that creating a simple template for fund shifting requests and an interim progress report that includes a summary explanation of the shifted funds-to-date.[17]

[15] D.08-10-027, pgs. 4-5, http://docs.cpuc.ca.gov/PUBLISHED/FINAL_DECISION/92371.htm

[16] NRDC Comments to November 17, 2010 ACR, pg. 3

[17] NRDC Comments to November 17, 2010 ACR, pg. 4

- **The Utility Reform Network (TURN)** recommends that a public process should focus on how to realign the existing portfolios to increase the prospective cost-effectiveness based on the existing models.[18]
- **TURN** argues that review should also address Quality Assurance/Quality Control issues [such as program activity tracking, documentation and reporting] and the progress achieved to date in addressing those issues. TURN includes their response to the IOU's "60 day" report as an attachment to their comments citing the issues raised in their response as examples of those needing Commission attention in any mid-cycle review.[19]
- **Sempra Utilities (Sempra)** states that current oversight and reporting mechanisms are adequate.[20]
- **Division of Ratepayer Advocates (DRA)** asserts that periodic reviews of the portfolio would be helpful, but there is no need to establish a review body to monitor the progress of portfolio implementation.[21]
- **California Energy Efficiency Council (Efficiency Council)** contends that IOUs should make mid-cycle adjustments with minimal approval requirements from the Commission.[22]
- **Pacific Gas & Electric (PG&E)** asserts that a public process would distract parties from focusing on current program cycle implementation, resulting in a continuation of the debate regarding the controversial 2006-2008 evaluation results. They argue that this would take limited resources away from other critical path efforts need to lock down statewide energy goals, cost effectiveness inputs, EM&V plans, Strategic Plan updates.[23]

In sum, several parties expressed concerns that there should be a public review process to ensure that the portfolio was updated mid-cycle, and that a public review process should not become complex and onerous, diverting efforts from program implementation and portfolio planning. The EM&V Plan is expected to include targeted research to inform a mid cycle review, which is being explored as detailed project evaluation plans are developed. The key questions this research will address include the effectiveness of certain program strategies through process evaluation, the effectiveness of the portfolio design, and some information on key technologies' savings. The Energy Division requests parties' comments in response to the following questions related to the mid-cycle review process:

5. **If the IOUs were to provide a bridge funding request as they did in 2009, what key information should they submit to facilitate the parties' review, ensure transparency and substantiate any needed adjustments?**
6. **Should one or more workshop to review the progress of IOU program portfolios be held? What specific information should the IOUs present?**

[18] TURN Comments to November 17, 2010 ACR, pgs. 3-4
[19] TURN Comments to the November 17 ACR, pg. 8
[20] Sempra Comments to the November 17 ACR, pg. 4
[21] DRA Reply Comments to the November 17 ACR, pg. 4
[22] Efficiency Council Comments to the November 17 ACR, pg. 9
[23] PG&E Comments to the November 17 ACR, pg. 3

7. **What specific adjustments, if any, are needed to the fund-shifting rules pursuant to D.09-09-047 and/or to the EE Policy Manual?**

B. Update Cost Effectiveness and Ex-Ante Values

The 2010-2012 portfolios were designed based on ex-ante values that date from 2004-2005 cycle and largely without consideration of 2006-2008 program evaluation results. The IOUs and parties are sharply divided on whether ex-ante values should be updated for the mid-cycle review.

- **DRA** only supports extending the current program cycle for an additional year on the condition that ex ante values are updated for mid-cycle portfolio corrections.[24] Otherwise, any gains in improved program planning and the development of updated goals would be negated by the use of inaccurate and overstated energy savings values.
- **Southern California Edison (SCE), PG&E, and Sempra** state that all ex-ante values should remain frozen for the 2010 portfolio and any portfolio extension period.[25]
- **PG&E** asserts that the Risk Reward Incentive Mechanism (RRIM) adopted for 2010-2012 should be extended to 2013.[26]

According to the proposed timelines in Attachment A, cost effectiveness updates are anticipated to be complete in August or October 2011 depending on the scope of that analysis and on whether the program cycle is extended one or two years. The 2011 DEER update process to incorporate new savings and cost data from the 2006-2008 EM&V results is expected to provide preliminary updates by September 1, 2011, at the soonest, but Energy Division believes that the ex-ante updates will require more time and structuring of a preliminary and final review process. The Energy Division requests parties' comments in response to the following questions related to cost-effectiveness and ex-ante updates:

8. **Is it feasible to update ex-ante values that consider 2006-2008 EM&V results in the portfolio adjustments submitted in a bridge funding request, based on the schedule in Appendix A?**
9. **If ex-ante values for 2006-2008 were to be used to inform changes to the program portfolios, what steps would be necessary to accomplish this task?**

C. Goals and Savings Attributions for Bridge Period

The 2010-2012 energy efficiency portfolios were filed and approved based on planned energy savings that achieve (or exceed) the utility gross goals established in D.08-07-047, as modified by D.09-05-037 and D.09-09-047. The 2012 - 2020 total market gross

[24] DRA Reply Comments to the November 17 ACR, pg. 2

[25] PG&E Reply Comments to the November 17 ACR, pg. 5-6, Comments to the November 17 ACR, SCE pg. 11, Sempra pg. 4

[26] PG&E Comments to the November 17 ACR, pg. 3

(TMG) goals established in D.08-07-047 were adopted on an "interim" basis (OP1), but utility-specific goals have yet to be adopted for 2013 and beyond. Only the IOUs commented on goals and savings for the bridge period:

- **Sempra** recommends counting the energy and demand savings achieved through the bridge period toward the energy efficiency goals adopted [in 2009] by the Commission.[27]
- **PG&E** states that the savings goals adopted for 2013 should be adjusted to be consistent with the adjustments applied to PG&E's 2010-2012 goals in D.09-09-047.[28]
- **SCE** states that the Commission should request a cohesive policy framework to supplement the proposal as currently written in order to fully implement the strategic direction (TMG goals) from the Energy Division. Currently, [Energy Division's] proposal is lacking this policy framework and SCE would like the opportunity to comment on a more detailed plan at a later date.[29]

The Energy Division requests parties' comments in response to the following questions related to goals and savings attributions for bridge period:

10. **Please elaborate on the basis for attributing savings to goals during the bridge period.**

11. **By when would the Commission need to adopt utility-specific goals for the bridge period? (i.e., Is this guidance necessary in a decision that would precede the bridge funding request?)**

D. Annual Budget

For the 2009 bridge year, the IOUs proposed to set 2009 budget at the "current" monthly funding level. D.08-10-027 determined that 2009 bridge funding should be set using average monthly expenditures for the 2006-2008 period. In comments on the November 17 ACR, the IOU's identified necessary adjustments to the 2009 approach, stating that the previous cycle did not allow them to determine what the annual budget would be until the end of 2008. In addition, some EE program implementers have said to Energy Division staff that the 2009 bridge funding approach resulted in a drop-off and scale-back of program activity because program spending had ramped up over the 2006-2008 period such that the 2006-2008 average was lower than the 2008 spending level.[30] In D.09-09-047 (OP 45) an automatic system for rolling budget authority was put into place, "so that the average monthly level of expenditures for the final year of a budget cycle may continue on a month-to-month basis until the next portfolio budget is approved (or as specified in the Commission decision for the next portfolio budget cycle)." Only the IOUs commented on how to set the annual budget for the bridge period:

- **PG&E** proposes that the total budget for 2013 be established upfront and set equal to one third of the current three-year portfolio budget; and requests that the

[27] Sempra Comments to the November 17 ACR, pg.5
[28] PG&E Comments to the November 17 ACR, pg. 7
[29] SCE Comments to the November 17 ACR, pg. 11
[30] For related comments, see for example, Efficiency Council Comments on November 17 ACR at pg. 7.

Commission's fund-shifting rules be clarified to allow the IOUs to carry funds from a future cycle to the current cycle extended through 2013. The total portfolio budget for 2013 should be established upfront for ratemaking purposes and to allow PG&E and its partners to better plan its program implementation through 2013. PG&E suggest that the allocation of the 2014 budget and other mid-cycle funding adjustments, including amount allocated for EM&V, could be revised by advice letter, consistent with existing fund shifting rules adopted in D. 09-09-047 as needed to reflect program performance, cost effectiveness, and other market, policy or program considerations.[31]

- **SCE** states that the fourth-year funding authorization should be comparable to a year's worth of funding in the 2010-2012 cycle, or $409.3 Million. Those funds will come from SCE's ratepayers less any unspent, uncommitted funds that are available at the beginning of the fourth year.[32]
- **Sempra Utilities** contend that it is not as simple as proportionally increasing the budget when the goals have not been appropriately set. If updated goals have not been adopted by 2013, then the annual electric kWh goal will decline over the 2010-2012 but increase by 35% in 2013[33]. A simple proportional allocation would not potentially be sufficient to meet this goal.[34]

The Energy Division has planned a Portfolio Analysis study in the 2010-2012 EM&V Plan,[35] which is expected to review expenditures and value achieved through the program cycle. It is intended that this study will be designed to provide interim results in 2012 to help inform review of the appropriate level of funding for the bridge funding period. The Energy Division requests parties' comments in response to the following questions related to the annual budget:

12. **What should annual budgets during the bridge period be based on?**
    a. 2012 expenditures
    b. 2010-2012 average expenditures
    c. 2012 expenditures plus growth rate
    d. Other
13. **Should unspent funds from 2010-2012 be applied to bridge period, potentially reducing the level of new collections required? Why or why not?**

E. IOU Contracts with Program Deliverers and Local Government Programs:
For the 2009 bridge year, utilities continued "successful" third-party administered programs, but did not automatically extend 100% of the programs. In their comments on the November 17 ACR, LGSEC made several recommendations to address the specific needs of the local government programs. While certain recommendations would enact

[31] PG&E Comments to the November 17 ACR, pg. 8
[32] SCE Comments to the November 17 ACR, pg. 11
[33] D.09-09-047 pg. 46
[34] Sempra Reply Comments to the November 17 ACR, pg. 3
[35] See Evaluation Plan http://www.energydataweb.com/cpucFiles/topics/59/2010-2012%20Energy%20Efficiency%20EM&V%20Plan%2012-20-10.pdf

long term changes to the portfolio rules, (thus outside the scope of this white paper), LGSEC seeks to ensure that there will not be a break in programs due to a drop off in funds.

- **Local Governments Sustainable Energy Coalition (LGSEC)** recommends amending the bridge funding contracts to extend at least six months beyond the date the 2009 – 2011 applications are approved, and raise monthly allocations. This may grant greater flexibility to lift the constraints on local government partnerships and thereby allow local governments to deploy complimentary projects and programs to avoid lost opportunities.[36]

The Energy Division requests parties' comments in response to the following questions related to IOU contracts:

14. **Do parties have any specific concerns or proposals with regard to extending bridge funding contracts for each of the following types of programs? Do these concerns or proposals require Commission action? If so / not, why / not?**
    a. **Local Government Partnerships**
    b. **Other third-party programs**
15. **Should there be specific criteria to determine which programs to extend, ie. track record of performance, or cost-effectives or profile of energy savings being achieved?**

<u>**Staff Straw Proposal on Procedural Schedule**</u>

In order to develop the record on the bridge funding request procedural schedule, Energy Division staff has prepared a straw proposal that defines potential next steps for bridge funding review. It is our goal to allow for transparency and party input while making the bridge funding approval process as expedient as possible to allow IOUs to focus on program implementation and planning for the next cycle. Parties may recommend alternatives to this process.

1. **Workshop on Post-2012 Energy Efficiency Portfolio Cycle Schedule and Bridge Funding Issues**: The Energy Division will lead a workshop on February 16 from 10 am to 5 pm to discuss the questions raised in this white paper.
2. **Post-workshop White Paper and Ruling:** The Energy Division may supplement this white paper with additional issues or suggestions that were raised in the workshop, as well as any other potential adjustments, and the Commission will issue a ruling requesting party written comments.
3. **Party Comments:** Parties may respond to questions in the ruling and white paper or comment on other issues raised in workshop. This will develop the record for a decision on the bridge funding procedure.
4. **Reply Comments**

[36] LGSEC Comments to the November 17 ACR, pg. 6

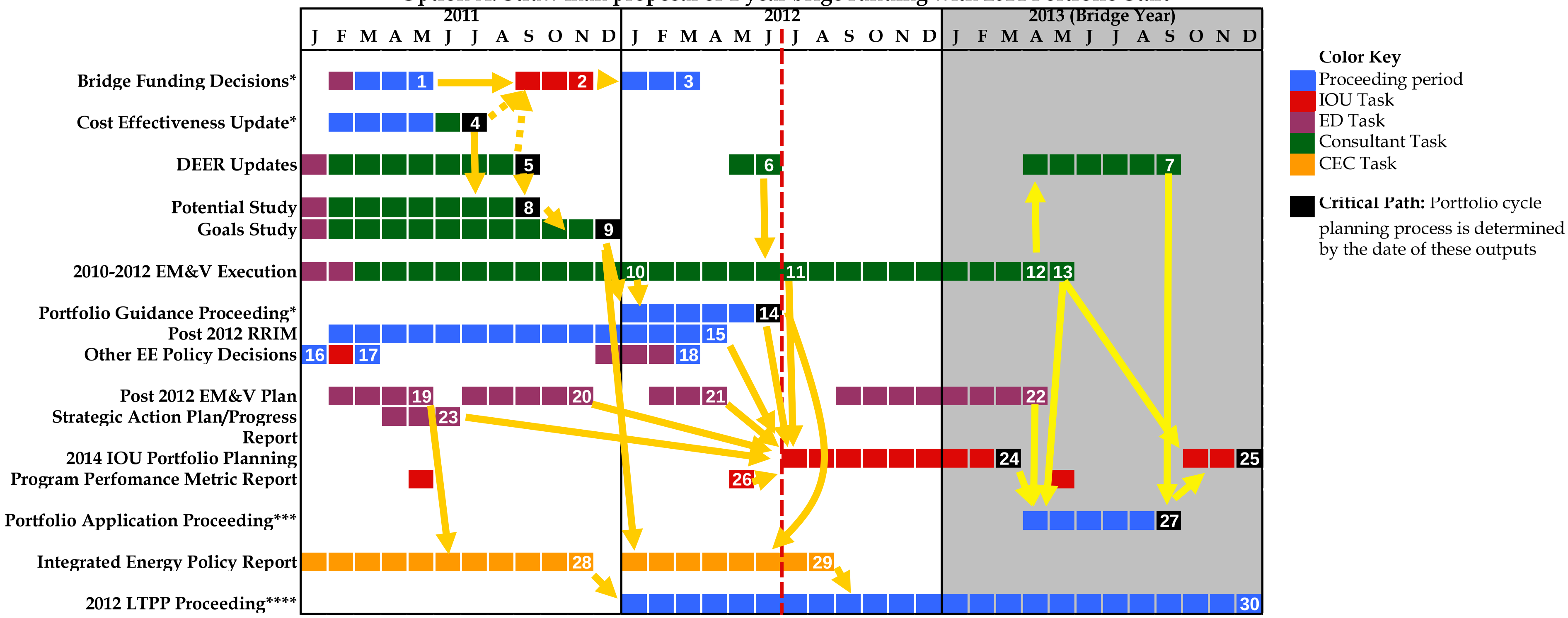
5. **ACR or Decision on Portfolio Schedule and Bridge Funding Request:** The decision would address the following issues:
    a. Specify the information and template by which the IOU's bridge funding shall be filed
    b. Determine whether updated ex-ante DEER adjustments should be applied to the bridge period
    c. Determine what goals and savings should be attributed to the bridge funding period
    d. Determine the basis of the annual budget for the bridge funding period
    e. Determine whether bridge funding will be extended one or two years
    f. Determine what utilities should prepare and present at the workshop
6. **IOUs Bridge Funding Request:** The IOUs will file a request based on the template set in the decision
7. **IOUs Mid-Cycle Review Workshop:** The IOU's lead a workshop to present their progress to date on their portfolios and discuss their bridge funding requests
8. **Party Comments:** Parties provide comments on the bridge funding requests, based on issues that were raised in the workshop
9. **Reply Comments**
10. **ACR or decision to approve Bridge Funding:** This decision will approve annual budgets and portfolio adjustments

The Energy Division requests parties' comments in response to the following questions related to the procedural schedule:

16. **Does the straw proposal on the procedural schedule for bridge funding request and approval seem reasonable? What adjustments, if any, should be made?**

17. **Do the IOUs' bridge funding proposals need to be submitted as an advice letter, application, motion or other procedural vehicle? What are the pros and cons?**

Option A: Straw man proposal of 1 year brige funding with 2014 Portfolio Start



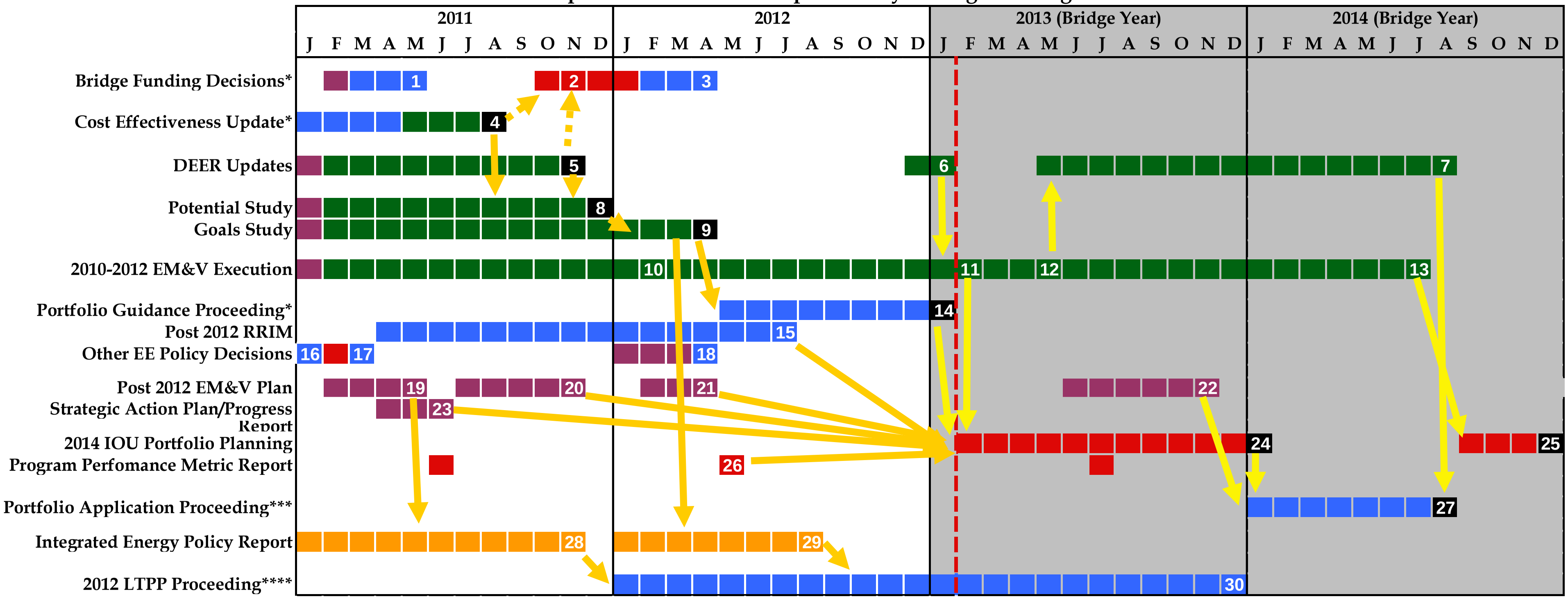
Rroceedings
* R.09-11-014
**R.09-01-019
***Successor to A.08-07-021
****Successor to R.10-05-006

List of Dependent Outputs

A prospective 2014 portfolio start would depend on the completion of all activities in the timeline above. The initiation of several activities would depend on the outputs of other activities, as listed below.

1 Decision on extension period, IOU goals for bridge period, process/filing template
2 IOU Bridge Funding Request
3 Adopted Bridge Funding Budget
4 Cost effectiveness calculations
5 2006-08 DEER cost updates, ex-ante parameters, ex-post installation rates for 2011 Potential Study
6 DEER Final frozen Ex-Ante Parameters for 2014
7 Portfolio
8 EE Potential output for Goals Study
9 Recommended EE Goals and Targets
10 Results of Macroconsumption Metrics, Market Transformation Indicators, ZNE Market and Cost Studies
11 Early/Interim EM&V Study Results (Complete list & timelines in EM&V Plan)
12 Available impact evaluation results
13 Final 2010-2012 Evaluation Results (Complete list & timelines in EM&V Plan)
14 Adopted Goals and Targets
15 Post 2012 RRIM structure
16 2010-2012 RRIM Reform Decision in R.09-01-019
17 2010-2012 PFM on Ex-Ante Paramenters in A08-07-021
18 EE Policy Manual Update in R.09-11-014
19 Demand Analysis Inputs for IEPR
20 Macro-consumption metrics white paper
21 Experimental Design & AMI white papers
22 2014-2017 EM&V Plan
23 Action Plan Progress Report/Strategic Plan Update
24 IOU Proposed EE Portfolios
25 Initation of 2014 Portfolio cycle
26 Program Performance Metric Reports
27 Adopted IOU EE Portfolios
28 2011 CEC IEPR Forecast
29 2012 CEC IEPR Forecast
30 Adopted Long Term Procurement Plan

Option B: Straw Man Proposal of 2 year brige funding with 2015 Portfolio Start



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Color Key
Proceeding period
IOU Task
ED Task
Consultant Task
CEC Task

Critical Path: Portfolio cycle planning process is determined by the date of these outputs

List of Dependent Outputs

A prospective 2015 portfolio start would depend on the completion of all activities in the timeline above. The initiation of several activities would depend on the outputs of other activities, as listed below.

1 Decision on extension period, IOU goals for bridge period, process/filing template
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